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SUBJECT: ALGERIA STILL GUN-SHY ON BANK PRIVATIZATION

REF: A. 2007 ALGIERS 1638 B. 2007 ALGIERS 1748

¶1. (U) SUMMARY. Algeria's privatization of the bank Credit Populaire d'Algerie (CPA) appears likely to remain on hold for the foreseeable future. According to public statements by the Minister of Finance and our conversation with the President of CPA, the Algerian government continues to view turbulence in global financial markets and troubles among international financial institutions as reason to "protect" the Algerian market and indefinitely suspend any sales of interest in its public banks. The Algerians are watching the health of foreign banks, and simply have no confidence that they can attract what they feel are adequate bids for CPA anytime soon. We will continue programming in the area of internal controls and credit risk management, as Algeria continues its slow process of economic reform. END SUMMARY.

¶2. (U) According to the May 10 edition of the French-language daily *Liberte*, Finance Minister Karim Djoudi told a member of parliament that he has renewed the hold on the privatization of Credit Populaire d'Algerie (CPA) to protect the Algerian market in light of what he called the current world financial crisis. He was quoted as saying that several of the banks originally interested in acquiring a controlling interest in CPA have suffered from the subprime mortgage crises, and are not yet capable of evaluating the impact that crisis has had on their operations. On April 8, Djoudi was quoted in the Arabic daily *Echorouk el-Youmi* as saying that the privatization of both CPA and Banque de Developpement Local (BDL) would not occur anytime soon, because he could not risk allowing Algeria's developing economy to be damaged by the ongoing "heavy disruptions" experienced by global financial markets.

¶3. (SBU) CPA's President, Mohammed Djellab, told us on May 12 that the privatization of his bank will not take place until there is greater certainty in the global financial markets, especially among the leading banks who were poised to bid on CPA in 2007 before the subprime loan crisis forced several to pull out of the tender (reftels). Djellab reiterated that the Algerians would prefer to see a strong showing by an American bank. He also lamented the fact that Citicorp, considered one of the leading contenders for CPA in 2007 (reftels), had again posted significant losses in April. (Djellab surmised that these losses would leave Citicorp unable to expand its presence in Algeria through a bid for CPA in the near future.) He also noted recent troubles at

Societe Generale and Credit Agricole, two of the leading French banks that had been interested in acquiring the controlling interest in CPA. Given the scale of financial turbulence, he said it would be unwise to open CPA for privatization now, because no institution would be able to properly value it, and he feels that there would be too few banks willing to bid to make a tender worthwhile. Djellab concluded that that no further action will be taken regarding CPA's privatization until the Algerians review the financial statements of the leading international banks that he said are generally made public in June. He said that privatization might be reconsidered if there was an indication that the world's biggest banks had regained sound footing, but he said that he did not expect this soon.

14. (SBU) COMMENT: The Algerians are confident that they did the right thing by suspending the long-awaited CPA privatization in November 2007, and feel vindicated by the ongoing distress in international financial markets and among leading banks. Normally risk-averse, they saw the possibility of the bank being undervalued -- or worse, dragged down by the financial crises that have plagued international markets since that time -- as potentially more harmful to public confidence in the government's economic reform strategy than any damage done by their sudden reversal on privatization. The Algerians are watching the international financial markets carefully, and still seem particularly keen on winning the interest of an American bank to diversify from the large French influence already present in the Algerian financial markets. But, unsurprisingly, they will not bow to an externally-imposed deadline, and appear likely to simply wait out the current storm until they feel they have an advantage. We will continue to offer programming that will help shore-up internal controls at the Central Bank and among Algerian banks, and assist with issues such as credit risk assessment and management, which seem to reflect the current approach of the Ministry of Finance at this time.

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